

VZCZCXRO2796
OO RUEHCHI RUEHDT RUEHHM
DE RUEHML #2824 2290746
ZNR UUUUU ZZH
O 170746Z AUG 07
FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7937
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
INFO RUCPDO/USDOC WASHDC IMMEDIATE
RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS IMMEDIATE
RHHMUNA/CDR USPACOM HONOLULU HI//FPA//

UNCLAS MANILA 002824

SIPDIS

SIPDIS

STATE FOR EAP/MTS, EAP/EP, EEB/IFD/OMA
STATE PASS EXIM, OPIC, AND USTR
STATE PASS USAID FOR AA/ANE, AA/EGAT, DAA/ANE
TREASURY FOR OASIA
USDOC FOR 4430/ITA/MAC/ASIA & PAC/KOREA & SE ASIA/ASEAN

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [RP](#)

SUBJECT: U.S. Woes Rattle Philippine Stock and Currency Markets But
Cautious Optimism Remains

Summary

¶1. Jitters over global stock market declines have erased gains posted by the Philippine stock market since the start of the year. The peso, previously trading at seven-year highs, has also come under pressure, although a healthy balance of payments and record-high foreign exchange reserves will give monetary authorities leeway to discourage speculation, inject liquidity as needed, and temper excessive volatility. End Summary.

Stock Market Drops, Peso Slips

¶2. The local stock market -- which has trended down since late July -- took an especially heavy beating during the August 13-17 trading week. The Philippine Stock Exchange Index (PSEi) dropped 12.1% week-on-week, more than erasing all gains that had driven the market to recent historic highs. At week's close, the PSEi had declined 3.4% year-to-date and 24.1% from its July 5 peak.

¶3. The peso -- which was trading at more than seven-year highs above 45 per USD until the third week of July -- has since weakened below the 46 per USD mark in recent days. It was trading at about 46.85 just before noon local time (midnight Friday Eastern Daylight time) on August 17, down 2.5% from the previous week's close. The peso is still up 4.4% year-to-date and stronger than the 48-49 pesos per USD range in GRP budget and macroeconomic forecasts.

But Analysts Note Underlying, Positive Fundamentals

¶4. Most analysts and traders here believe that the Philippines will be able to withstand current jitters and financial market volatilities. Although there have been outflows of portfolio capital and conversions from peso to foreign assets like emerging markets elsewhere, bankers told us that they are not seeing massive capital flight thus far. (Note: Latest Central Bank data showed net foreign portfolio capital inflows this year at USD 3.6 billion as of early August, nearly four times the comparable 2006 level. End Note.)

¶5. Echoing Central Bank officials, analysts also noted that financial institutions here are not significantly exposed to financial instruments underpinned by sub-prime mortgage loans. They expect a healthy balance of payments (estimated at a USD 4.5 billion

surplus as of July) and record-high international reserves will allow the Central Bank elbow room to inject liquidity to temper excessive foreign exchange volatility and discourage speculation.

Comment

16. Although volatility may continue in coming weeks, several analysts predict that the stock market may be close to bottoming out and is ripe for bargain-hunting, considering positive corporate earnings reports. The swift reversal in investor sentiment that tends to characterize foreign portfolio capital investments emphasizes the importance of pursuing and sustaining confidence-building reforms, improving the country's competitiveness rankings, and harnessing higher levels of foreign direct investments.

JONES